

VZCZCXRO2408

PP RUEHAO RUEHCD RUEHGA RUEHGD RUEHGR RUEHHA RUEHHO RUEHMC RUEHMT
RUEHNG RUEHNL RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHCV #1340 2892014
ZNR UUUUU ZZH
P 162014Z OCT 09
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 3844
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RHEBAAA/DEPT OF ENERGY
RHEHNSC/NSC WASHDC
RUMIAAAA/HQ USSOUTHCOM MIAMI FL
RUCPDOG/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

UNCLAS CARACAS 001340

SENSITIVE
SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
NSC FOR DRESTREPO AND LROSSELLO
USDOC FOR 4332 MAC/ITA/WH/JLAO

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EPET](#) [VE](#)

SUBJECT: PDVSA ANNOUNCES USD 3 BILLION BOND ISSUANCE

REF: A. CARACAS 1283

[1](#)B. CARACAS 852

[1](#)C. CARACAS 1228

[1](#)D. CARACAS 1270

[1](#)E. CARACAS 1311

[1](#)1. (U) Petroleos de Venezuela (PDVSA) announced on October 16 terms for a USD 3 billion bond issuance. The issuance, which had been widely expected, is a combination of three "Petrobonos" maturing in 2014, 2015, and 2016 with coupons ranging from 4.9 to 5.125 percent. The terms of the issuance are similar to those of the recent sovereign bond issuance (ref A) in that they set purchase price of 138 percent of face value, with purchases made in bolivars at the official exchange rate of 2.15 Bs/USD. (Note: If PDVSA issues USD 3 billion worth of face value of the bonds at this price, PDVSA will raise roughly Bs 9 billion (USD 3 billion x 2.15 Bs/USD x 138 percent). End note.) According to the terms of the issuance, the proceeds will be directed to investments outlined in PDVSA's "Plan Siembra Petrolera." (Note: PDVSA used at least part of the proceeds of a USD 3 billion Petrobono issuance in July to pay part of its debts to oilfield services companies (ref B), and it is likely part of the proceeds of the current issuance will be used for this purpose. End note.)

Comment

[1](#)2. (U) By issuing dollar-denominated bonds purchased in bolivars, PDVSA is supporting the Venezuelan government's (GBRV's) efforts to lower the parallel foreign exchange rate, which is currently 4.9 Bs/USD (down from almost 7 Bs/USD in early August). Ref C outlines related GBRV efforts and provide's post's analysis of the reasons for and the limitations of this strategy. Ref D discusses the GBRV's and PDVSA's overall debt situation.

[1](#)3. (SBU) This Petrobono offer is less attractive financially than the recent sovereign issuance, which offered buyers the opportunity for an immediate profit of almost 20 percent (ref E). According to one calculation, the implicit exchange rate of the sovereign issuance was roughly 4.3 Bs/USD. (Note: The implicit exchange rate is calculated by dividing the Bs spent in purchasing a given quantity of bonds by the USD acquired upon immediate sale of the bonds in international markets. It is thus dependent on the price/yield of the

bonds in international markets, a value which is unknown before the bonds are actually sold. End note.) While we have not seen an estimate of the implicit exchange rate of this Petrobono offer to date, it is almost certain to be higher than 4.3 Bs/USD because PDVSA bonds yield more than sovereign bonds (i.e., they sell for a lower price). Also, the more debt PDVSA and the GBRV issue, the more international markets will be saturated and the less appetite international investors will have for new debt. As a manager at one of the largest emerging market funds commented to Econoff October 16 before the terms were announced, "The world is in love with emerging market (debt) except with Venezuela on account of that country's insistence on managing money supply by issuing more debt."

DUDDY